

JSW Paints Private Limited

January 15, 2024

Facilities	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	563.50	CARE A-; Stable	Assigned
Short-term bank facilities	395.25	CARE A2+	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of JSW Paints Private Limited (JPPL) draw significant strength from strong operational and financial linkages with the JSW group, led by Mr. Sajjan Jindal, and the healthy financial flexibility of the group. Furthermore, the entity is important for the JSW group, as it has entered into the paints business by setting up industrial and decorative paint plants at Vasind and Vijayanagar respectively in March 2019 through JPPL, with the shared brand name of JSW. Location of the industrial paint unit adjacent to the coated steel plant of JSW Steel Coated Products Ltd (JSCPL; rated CARE AA; Stable/CARE A1+), one of the major customers, further underpins the strategic importance of the company to the group. The promoters have demonstrated financial support in the form of equity infusion in the past, which is expected to continue as and when required by JPPL, as also evident from sponsor support undertaking provided by the promoters to one of the lenders. Sajjan Jindal Family Trust holds 87.15% equity while JSW Steel Ltd. (JSL, rated CARE AA; Stable / CARE A1+) holds balance 12.85% equity stake in JPPL as on December 31, 2023. Mr. Parth Jindal, son of Mr. Sajjan Jindal, is the Managing Director of JPPL.

The ratings also factor in the significant growth in total operating income (TOI) over the past 4 years since entering in the business alongside turnaround witnessed in H1FY24 performance wherein the company achieved operating profits for the first time after incurring losses in the initial phase of its existence. The ratings also factor in the good demand prospects in the decorative and industrial paints segments. The ratings also factor in the moderate but improving capital structure with consistent equity infusion to fund the losses and growth in scales of operations etc.

The ratings are, however, constrained by the increased competitive intensity in the paints industry, with JPPL being a new entrant with low market share. The ratings also factor in the moderate debt coverage indicators because of the losses so far due to the company being a new entrant, implementation risk associated with the capex plan and the susceptibility of operating margins to fluctuations in prices of raw materials.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations marked by Total Operating Income (TOI) of more than ₹3500 crore with PBILDT margin above 7% on a sustained basis.
- Improvement in debt coverage indicators on a sustained basis.

Negative factors

- Inability to achieve TOI of ₹2000 crore with PBILDT margin remaining at less than 5%
- Significantly large-size debt funded capex leading to moderation in TOL / TNW at more than 2.50 times on a sustained basis.
- Delay in receipt of need based financial support from the group.

Analytical approach: Standalone factoring in strong operational and financial linkages with the JSW group.

Outlook: Stable

The stable outlook reflects the strong financial flexibility available to the company by virtue of being part of JSW group and improved financial performance, which is expected to continue going forward.

Detailed description of the key rating drivers:

Key strengths

Part of JSW group; having strong operational and financial linkages

JPPL is a part of the JSW group, which is led by Mr. Sajjan Jindal and is a part of the larger O.P. Jindal group. Mr. Parth Jindal,

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

son of Mr. Sajjan Jindal, is the Managing Director of JPPL. As on December 31, 2023, Sajjan Jindal Family Trust holds 87.15% equity while JSW Steel Ltd. holds balance 12.85% equity in JPPL. The JSW group has a significant presence in diversified business segments, such as steel, energy, real estate, infrastructure, cement, and sports. The group ventured into the high growth high margin paints business by setting up green field industrial and decorative paint plants at Vasind and Vijaynagar respectively in March 2019. It has extended its strong brand to JPPL which has resulted in quickly establishing the JPPL product in the market. Sharing the group name underpins the strategic importance of the company to the JSW group.

Demonstrated financial support from the group; expected to continue in future

Sajjan Jindal Family Trust infused ₹200 crore equity in FY17 when company started the project. An aggregate equity of ₹750 crore has been infused by JSW Steel Ltd over a period of 3 years (₹300 crore in FY22; ₹200 crore in FY23 and ₹250 crore in 9MFY24) for funding the capex, debt repayment, losses and working capital needs of JPPL. There is sponsor support undertaking from the promoters for the debt availed from one of the lenders. As demonstrated in the past, the group is expected to provide need-based support to JPPL in a timely manner.

Turnaround in financial performance in H1FY24; after incurring losses in the past

The company started its operations in FY20 and its TOI has been increasing since then with sales in both industrial and decorative paints segments improving each year. TOI in FY23 grew by 50.46% y-o-y to ₹1596 crore, majorly driven by substantial volume growth for decorative paints and increase in overall realisations. The company incurred losses in the initial phase in view of intense competition requiring aggressive spending on marketing and increasing distribution reach. The ad spend for JPPL remained in the range of 10%-12% of TOI, which is higher than the amount spent by established players. In H1FY24, JPPL achieved TOI of ₹997 crore with the company posting operating profits of ₹43 crore and PBILDT margin of 4.32% for the first time, mainly driven by higher sales of decorative paints along with easing of major crude based raw material prices. The Company is expected to sustain the improvement in its margin going forward with increased sales of decorative paints.

Going forward, with the increase in the capacities at its plants, stable demand outlook and increased penetration in decorative segment, CARE Ratings expects operating profitability to remain healthy.

Moderate and improving capital structure with consistent equity infusion

Despite being in the initial phase of paints business with recently completed project, the overall gearing ratio remained moderate aided by continuous equity infusion by the group, to meet the capex, losses and other requirements. The overall gearing of the company witnessed an improvement from 2.15x as on March 31, 2022 to 1.36x as on March 31, 2023. Debt protection metrics, however, remained weak in view of losses in the initial years of product launch.

The interest coverage ratio, however, continued to remain vulnerable in FY23 because of operating losses. However, it improved to 1.29x in H1FY24 with operating profits recorded for the first time, while overall gearing also improved to 1.06x as on September 30, 2023.

Good demand prospects

The Indian paints industry is expected to grow at around 9-10% in FY24. This follows two consecutive years of remarkable growth in FY22 and FY23. This growth is accompanied by anticipated improvements in operating margins attributed to the decline in prices of critical raw materials and the price increase undertaken by key industry players during FY23 and Q1FY24. Decorative paints constitute about three-fourth of the overall Indian market. Real estate sector contributes nearly 70% of the total demand for paints; whereby sector is expected to perform well in the near to medium term.

Liquidity: Adequate

JPPL currently has an adequate liquidity profile supported by regular equity infusion. Given moderate cash accrual expected for FY24, the debt repayment for FY24 is expected to be met out of equity proceeds, to the extent required. Going forward the accruals are expected to be sufficient to meet the company's debt repayment obligation. Further, the planned capex for FY24 and FY25 is expected to be funded out of mix of debt and equity infused in FY24. Furthermore, the average utilisation of its fund-based working capital limits stood at around 37% for the trailing 12 months ended October 2023, providing liquidity buffer. Going forward, the working capital requirements are expected to be funded out of the increased working capital limits.

Key weaknesses**New entrant in Indian paints industry**

JPPL is a new entrant in the domestic paints industry with the backing of the JSW group. It has two manufacturing facilities in Vasind and Vijaynagar and sells both industrial paints and decorative paints. Despite being a new entrant, it registered revenue of around ₹1596 crore in FY23 (4th year of operation) and expects to cross ₹2000 crore revenue in FY24. The paints industry has high entry barriers in terms of brand building and distribution network. However, JPPL could grow its presence by virtue of the credibility of JSW brand which helped in building relationship with suppliers and customers along-with major sale of industrial paints to group entity JSCPL. Further scaling up of the production and increasing its brand presence in decorative paints segment as envisaged, shall remain a key monitorable.

Increased competitive intensity

The existing players of the industry are expanding their capacities and new players are setting up capacities to cater to the increased demand. The industry has a planned capex of ₹20,000-22,000 crore over the next three to four years. This is expected to increase the overall capacity by 20% in turn, increasing the competitive intensity and restricting the margins in near to medium term. Nevertheless, it is anticipated that new entrants will require a significant period, estimated at five to seven years, to establish their presence in the market and secure a meaningful market share from the established industry leaders.

Susceptibility of operating margins to raw material price fluctuations

The cost of raw materials consumed constituted around 69% of the total cost of sales of JPPL in FY23 (FY22: 71%). A significant proportion of the raw materials, such as mineral turpentine oil and phthalic anhydride, are derivatives of crude oil. Other major raw materials include titanium dioxide for pigments, which is mainly imported and the prices of which are driven by global demand and supply factors. Intense competition from the organized and unorganized players also limits pricing. In the industrial segment, the susceptibility of the profit margins to commodity price volatility is relatively higher, where the finished goods pricing is through unilateral agreements and involves negotiations. Hence, the profitability of the company is susceptible to the raw material price fluctuation risk. Paint players in India are not looking at price hikes in FY24 and focussing on reducing rebates and discounts to protect their margins.

Moderate debt coverage indicators because of past losses

Because of initial stage of operations, the company incurred losses in the past. This has led to moderate debt coverage indicators. However, in H1FY24, the company has been able to turnaround the operations and hence, the coverage indicators have improved. CARE Ratings expects the company to improve its performance and in turn improve its debt coverage ratios, going forward.

Risk associated with the planned capex

The company has planned capital expenditure of around ₹450 crore up to FY26. Out of this, ₹97 crore is for routine capex, ₹183 crore is for expansion of existing capacities at Vasind and Vijaynagar plants. The company is planning capacity expansion of 50,000 KLPA at Vasind plant and 50,000 KLPA at Vijaynagar plant by FY26. The rest capex is for land acquisition for setting up greenfield plant in Madhya Pradesh (MP). The above-said capex is expected to be funded through a mix of debt, equity infusion of ₹250 crore in FY24 and internal accruals.

The company has plans to set up a green-field plant with an installed capacity of 30,000 KLPA for industrial paints and 1,00,000 KLPA for decorative paints at MP at a total project cost of ~₹700 crore. The majority of capex at MP is however expected post FY26 and planned to be largely funded by equity.

The company remains exposed to the pre and post implementation risks associated with these capex plans.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Paints

JPPL, incorporated in February 2016, is a part of the JSW Group (Sajjan Jindal faction of OP Jindal group). The company manufactures industrial and decorative paints, and has two manufacturing facilities at Vasind, Maharashtra and Vijayanagar, Karnataka. While the Vasind plant has an installed capacity of 60,000 kilo litres per annum (KLPA) and caters to the industrial paints segment, the Vijayanagar plant manufactures decorative paints and has an installed capacity of 1,10,000 KLPA.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	1,060.43	1,595.55	996.93
PBILDT	-62.33	-29.34	43.04
PAT	-123.29	-85.68	-15.00
Overall gearing (times)	2.15	1.36	1.06
Interest coverage (times)	NM	NM	1.29

A: Audited UA: Unaudited; NM: Not Meaningful; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	336.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	September 30, 2026	227.50	CARE A-; Stable
Fund-based - ST-Working Capital Demand loan		-	-	-	344.00	CARE A2+
Non-fund-based - ST-Forward Contract		-	-	-	1.25	CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	45.00	CARE A2+
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	5.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	227.50	CARE A- ; Stable				
2	Fund-based - LT-Cash Credit	LT	336.00	CARE A- ; Stable				
3	Non-fund-based - ST-Letter of credit	ST	45.00	CARE A2+				
4	Non-fund-based - ST-Loan Equivalent Risk	ST	5.00	CARE A2+				
5	Non-fund-based - ST-Forward Contract	ST	1.25	CARE A2+				
6	Fund-based - ST-Working Capital Demand loan	ST	344.00	CARE A2+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Working Capital Demand loan	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	Non-fund-based - ST-Letter of credit	Simple
6	Non-fund-based - ST-Loan Equivalent Risk	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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